

Benchmark rate increased by 25 BPS

February, bond yields followed January trend of significant change as major selling prevailed in the money/fixed income market. The previous month witnessed an upward trend in the yields, with an average increase of 15-25bps towards month ended February 2018. The change in yields was witnessed due to the 25bps increase in the policy rate announced by the monetary policy committee on 26th January 2018 which led the participants to further expect a policy rate change in March. The participation of the PIB auction of 21st February 2018 showed the position of Banks/DFIs/FIs as the total participation equaled to a minor total of only PKR 12.5 billion out of which 3 years PIB received majority bids worth of PKR 12 billion, 5 years PIB received bids worth PKR500 million and 10 years PIB received no bids at all. The insignificant amount at higher yields led to the auction being rejected. The yields for ready 3 year PIB (29-12-2016 to 29-12-2019) hovered around 7.25%, yield for 2 years remaining bond (26-03-15 to 26-03-2020) witnessed a increase going from 7.18% on 2nd February 2018 to 7.30% in month ended February 2018. PIBs of longer tenors such as 4 year (21-4-2016 to 21-4-2021), 5 year (19-7-2012 to 19-7-2022), and 10 year (21-4-2016 to 21-4-2026) also showed a substantial rise, with their yields prevailing at 7.93%, 8.33%, and 8.53% respectively. The result of the latest MTB auction of 28th February 2018 showed a little participation of PKR319 billion and the cutoff increased to 6.2591%. The target for the auction amounted to PKR650 billion out of which a little total of PKR247 billion was accepted with 3 months receiving majority bids worth of PKR319 billion while 6 months received bids of PKR25 billion and 12 months received no bids at all, hence showing the interest of FIs on shorter tenors as compared to longer tenors. Looking at the prevailing trend bond yields are expected to rise further due to the selling pressure prevalent in the money/fixed income market, also bond yields adjusted themselves due to the 25bps rate hike. The CPI for YoY February 2018 equaled to 3.80% less than the previous number of 4.42%.

